Daily Market Outlook

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Markets Sensitive to Data Surprises

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. UST yields rose upon the PPI release, as market pared back rate cut expectations. A 25bp cut at September FOMC meeting is still seen as the most likely outcome, which is priced at 92% (versus over 100% priced a day earlier). Fed funds futures last priced 57bps of cuts (versus 63bps prior) for this year and 70bps of cuts (versus 68bps prior) for 2026. July PPI surprised to the upside by a wide margin, in both MoM and YoY terms and across measures of final demand, ex food and energy, and ex food, energy and trade. 2Y UST yield rose by 9bps intra-day from low to high, while ending the day 5bps higher. Almost 80% of the 0.92%MoM increase in PPI final demand was attributable to services, echoing Goolsbee's "concern" over the increases in the CPI for some services items. Next to watch on the inflation front is July PCE/core PCE to be announced on 29 August. Next week, there are auctions of USD8bn of 30Y TIPS and USD16bn of 20Y bond, while tonight there is net coupon bond settlement of USD35bn. Net bill settlement is at USD89bn next week as US Treasury continues to replenish cash position. TGA balance was last at USD515bn on 13 August, USD335bn away from the target of USD850bn. Most of the increase in TGA balance has thus far been matched with drop in reverse repos (all tenors), leaving bank reserves relatively stable.

- **DXY. *Watch Data.*** USD jumped overnight in response to hotter-than-expected PPI while Treasury Secretary Bessent made clarification on his earlier comments with regards to rate cuts. In another interview with Fox TV overnight, he said that he "didn't tell the Fed what to do" and that "to get to a neutral rate, that would take approximately 150bp cut". Elsewhere, much hotter PPI caught markets by surprise and rate cut bet was pared slightly. On Fedspeaks, Musalem said it's too early for him to decide on whether to lower rates at Sep FOMC. Barkin said he sensed improvement on consumer spending in July. Nevertheless, markets still price in 92% chance of Sep cut. Later today brings IP, retail sales, empire manufacturing, Uni of Michigan sentiment, inflation expectations data. FX markets remain highly sensitive to data surprises. Hotter print may see USD retrace its earlier declines. DXY was last at 98.10 levels. Daily momentum is mild bearish while RSI was flat. 2-way trades but favour selling rallies. Resistance at 98.40 levels (21 DMA), 99.30 (100 DMA). Support at 97.60, 97.20 levels.

- **EURUSD. *Indirect FX Implications from Alaska Summit.*** President Trump and Putin will meet later in Alaska. Trump believes there is a 75% chance of the Alaska meeting succeeding. He also said a second meeting between Putin, Zelensky and himself would be more decisive – but this is not yet confirmed. While negotiations may not be smooth and takes time, Europe potentially participating in Ukraine's reconstruction plans at some point, may marginally lend a boost to EUR, over the medium term. We had previously said that a Ukraine peace deal at some point can lead to supply chain normalisation, lower energy costs, in turn reducing existing burden on corporates and households, improving sentiments and growth outlook. EUR fell overnight, as USD saw a broad rebound wing to hotter-than-expected US PPI. Pair was last at 1.1650 levels. Daily momentum is mild bullish while RSI is flat. 2-way trades likely. Support at 1.1630 levels (21, 50 DMAs), 1.1570 (23.6% fibo retracement of Mar low to Jul high) and 1.1450 (100 DMA). Resistance at 1.1730, 1.1780 levels.

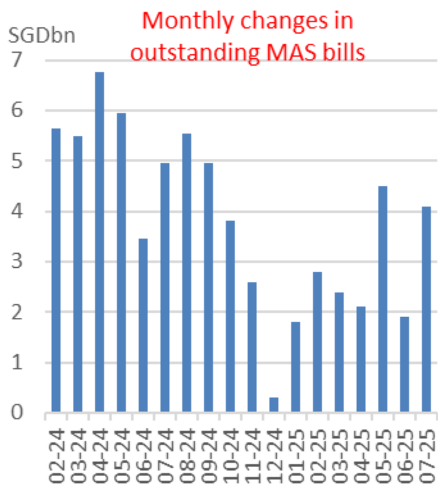
- **USDJPY. *Sell Rallies.*** USDJPY rebounded overnight, tracking the rise in UST yields after US PPI data came in hotter. Subsequent clarification that Scott Bessent did not ask Japan to hike rates also added to the USDJPY's rebound. Pair rose to near 148 at one point overnight but has now eased lower. Stronger than expected 2Q GDP aided the pullback in USDJPY this morning. This reinforced our view that there is room for BoJ to pursue policy normalisation. We indicated before that *wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation.* We reiterate our view that a resumption of Fed-BoJ policy divergence should underpin the direction of travel for USDJPY to the downside. Pair was last at 147.30. Daily momentum is mild bearish while RSI fell. Risks remain skewed to the downside. Immediate support at 146.40 (50 DMA), 145.50 (100 DMA) and 144.10 (61.8% fibo retracement of Apr low to Aug high). Resistance at 147.80 (21 DMA), 148.32 (23.6% fibo).

- **USDSGD. *Range.*** USDSGD rebounded amid broad USD rebound. Range-bound trade remains the name of the game. Pair was last at 1.2840. Daily momentum is mild bearish while RSI was flat. 2-way trades. Resistance at 1.2850 levels (21 DMA), 1.29 levels. Support at 1.2740/60 levels before 1.27. S$NEER continues to hold steady at around 1.91% above our model-implied midpoint. S$NEER near the upper bound of the band suggests that the room lower for USDSGD is a slow grind unless other currency peers strengthen further (vs. USD).

- **CNY rates**. PBoC is to auction CNY500bn of 6M outright reverse repo today; this, together with the CNY700bn of 3M outright reverse repo auctioned last week, will result in net injection of CNY300bn for this month thus far. This month MLF maturity is at

CNY300bn – we expect either a full roll-over or a mild net injection. Short-end CGBs are likely supported but on the IRS side, short end repo-IRS have been consolidating around the 1.5% level, with the 1.4% OMO reverse repo rate setting an interim floor. Our mild steepening bias on the CGB curve across 2s10s and 2s30s segments panned out over the past month, as long-end yields edged higher amid a better risk sentiment and continued bond supply, while the liquidity condition has been supportive. That said, some interim reversal cannot be ruled out after the recent sell-off at long-end CGBs when the data have yet to show a strong recovery in the economy. July retail sales came in at a weaker-than-expected 3.7%YoY, and industrial production was also weaker at 5.7%YoY. Earlier, new yuan loans also printed weak.

- **SGD rates**. Latest 6M T-bill cut-off came in at 1.59%, in line with our expectation of "around 1.60%". Net MAS bills issuance in July picked up to SGD4.1bn; for the first seven months of the year, net MAS bills issuance was relatively low at SGD19.6bn versus the amount of SGD35.85bn during the same period last year. We have been of the view that SGD liquidity may stay flush as S$NEER stays near the top end of the band (pointing to chance of further liquidity injections) and there has not been more bill issuances that mop up liquidity. Still, SGD OIS have broken below levels that we had seen as a floor. 2Y SGD OIS dipped below 1.30% at one point yesterday. Instead of chasing this rate lower, we continue to see 2Y bond/swap spread provides relative value compared to other tenors vis-à-vis historical levels. On asset swap side, pick-up was last at around SOFR+30bps at 2Y SGS, around SOFR+42bps at 10Y SGS and around SOFR51bps at 20Y SGS (10Y hedge). While the pick-up is similar to or a tad narrower than that at USTs, SGS remains appealing to foreign investors who look to diversify their portfolios and after all, Singapore is AAA-rated.



Source: CEIC, OCBC Research

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W